

Presentation on Energy Segment – Q&A Session

1. **Date and time:** June 22, 2012 14:00~15:30
2. **Place:** Mitsui & Co., Ltd. Headquarter
3. **Speakers:** Hiroyuki Kato, Executive Managing Officer,
Chief Operating Officer of Energy Business Unit I
Yasushi Yoshikai, Managing Officer,
Chief Operating Officer of Energy Business Unit II
Yukio Takebe, General Manager, Planning & Administrative Division,
Energy Business Unit I & II
Kenichi Hori, General Manager, IR Division

4. Questions and Answers :

Q On page 23 of the presentation, total assets are estimated to grow to around 2.5 trillion yen in future. What is your image of the ROA at that time?

A As of Fiscal Year ending March 2017, Mozambique LNG project etc. would still be under development so there may be a dip in the ROA, but as of Fiscal Year ending March 2020, Mozambique LNG is expected to be already in production, so we wish to target the current 10% or more.

Q Can you turn Marcellus Shale Gas into profit even if the current gas prices continue? When do you expect the development cost carry arrangements with Anadarko to be completed? What is your expectation on the U.S. gas market?

A As for the cost carry arrangements, depending on the pace of drilling, we expect it to be completed by around July to August 2012. After that, we would only bear our share of the drilling costs, but because depreciation for the development cost that we have carried in the past would still continue, it would be difficult to turn to profit in the short term if the current gas price levels continue. Our profitability is expected to gradually improve as total production increases and the proportion of wells that we only bear our part of the development costs increases. Since it would depend on a number of different factors, we cannot comment on the concrete timing of turning into profit. As for Eagle Ford Shale, due to the liquid rich nature, we expect profits from the first year and we expect that for the foreseeable future this will offset part of the losses in Marcellus Shale.

As for the U.S. gas market, it is currently around US\$2.60 but we expect it to return to US\$3-4 in the near future. The pace of gas inventory build-up is slowing, and while absolute inventory levels are still higher than historical figures, once it comes down to historical figures the prices are expected to improve. In future, additional demand for gas is expected in the transportation sector, as well as in the power generation sector due to a number of coal fired power plants approaching retirement age at around 2014-2015, in

the gas chemical sector mainly around 2015-2016, and exports of LNG from the U.S. are planned around the similar timing. Therefore we expect a turning point around that timing, and while the range is wide, the gas price is expected to recover up to US\$6-10.

Q *What is the outlook for expanding Mozambique LNG capacity to beyond 10 million tons, and how do you see the cash flow?*

A We are yet to commence FEED studies so we do not have anything concrete to say, but since we have such a concentration of significant reserves, we want to start relatively big and expand according to demand. As for cash flow, we cannot comment at this stage as we are yet to determine the total development costs as well as sales prices for LNG, but we believe that we have a project with relatively good cost competitiveness, so if the sales prices for LNG are not much different, we expect a higher profitability in comparison to other LNG projects.

Q *On the LNG demand and supply outlook on page 11 of the presentation, how do you see the demand and supply balance including the projects other than those which have reached FID to date?*

A As for LNG, because basically projects would start up based on firm demand, historically we have not seen any extreme imbalance in demand and supply, and we believe the same to continue. The point would be whether there is basic demand for LNG. On this point, we are seeing new demand coming to the market on top of the traditional demand, and in some countries in South East Asia or Middle East, which have traditionally been exporters, they are studying imports while continuing exports, driven by the increases in domestic gas demand. We believe the important thing is to anticipate the demand and meet the time horizon for such demand.

Q *Do you believe that the U.S. will really turn its policy to exporting energy? While Cameron LNG Terminal in the U.S. is planned to transform from an LNG import hub to an LNG export hub, how do you see the potential in realizing such plan and how cost competitive are they? Also what are your views on the impact to LNG prices caused by the export of LNG from the U.S.?*

A We believe that exports of LNG from the U.S. will be realized in a phased manner from those projects with higher potential. Cameron has the advantage that they can utilize the existing infrastructure of their LNG import hub, therefore we believe they have a good chance of realizing their plans. Gas demand in the U.S. is as big as 22-23 TCF per year, or 440 million tons per year in LNG equivalent terms, so compared to this the volume of potential export is not so significant. The Energy Information Agency in the U.S. forecasts that 40 to 50 million tons of LNG exports may be realized. This volume is also not so significant compared to the global LNG demand, so we believe the impact on

international LNG prices would be limited. We believe the LNG prices would eventually converge to a level that covers the production cost, so while some movement in prices may be observed, we believe the development cost in other regions will determine the price level.

Q *Our estimation is that because you have only minority investments in projects, your “say” in any project would be limited. How do you maintain your “say” in projects so that you can recover the invested cash at your will?*

A Having access to cash is very important for us. Basically we participate into Un-Incorporated Joint Ventures, in which we have direct access to cash, through our subsidiaries. As for those projects like Sakhalin II for which we recognize our profits based on dividends received, of course we cannot control everything as we desire, but the common interest for all the shareholders is to realize the maximum return for the project and recover the invested cash as quickly as possible. We maintain a good level of communication regarding the basic policies, and so far we have not felt any major difficulties in the method of cash recovery.

Q *Mozambique is a good example of success in exploration, but what do you think is important in achieving a high success rate in exploration? Since ENI has also succeeded in exploration in the adjacent block, would it be correct to assume that the profitability could be further enhanced if the two projects are developed jointly?*

A Teaming up with a good operator which has the scale and a good track record in exploration would be a basic factor. Also of critical importance is to have the technical ability to analyze and evaluate what the operator is saying. Our subsidiary MOECO has some 50 technical staff. Also in our E&P subsidiaries in Australia, Middle East and U.S. we employ highly qualified technical staff who have the experience of working in large oil and gas companies, so as a group globally we have some 70 technical staff in total. As for Mozambique, unitization with the adjacent block may occur at some point in the future involving the government. However exploration in our block is 2 years ahead from our neighbors and we are more advanced in terms of not only the size but also the level of delineation of our reserves as well as plans for LNG development, and we are not sure at which point in time discussions may take place regarding any unitization.

Q *We believe Mozambique LNG will commence FEED studies within 2012, but are there any hurdles to be cleared prior to ordering FEED? Anadarko would not have much knowledge and experience regarding LNG marketing but what would be the role of Mitsui and what is the progress of marketing activities? You say the project is cost competitive but what is the source of such competitiveness? Development costs in Australia are inflating but what is the difference in Mozambique?*

A As for the FEED studies, we are at the stage of firming up our contracting strategies. We will be shortlisting potential contractors through a tender in the near future. We would look for the most cost competitive but at the same time solid FEED study. As for marketing, while Anadarko is strengthening its capabilities by employing people who have the experience, we are cooperating from the stages of overall strategy setting and doing individual marketing together with Anadarko. This is where we can contribute to the project most and Anadarko appreciates our capabilities in this front. As for cost competitiveness, in Australia we are seeing a concentration of demand for labor and other resources during a limited period, which is leading to inflation in development costs, however the situation in Mozambique is different. We have a high concentration of significant resource volume in this area, therefore the key to achieving cost competitiveness would be to carry out solid engineering and design that enables us to reap the benefits of scale.

Q *What process is required from now on in order to realize Sakhalin II train 3?*

A The premise for an expansion would be to determine that there are reserves that can be developed. Currently we are waiting for such upstream data to be disclosed.

Q *When you consider that the LNG prices may decline in future, is there a possibility that you would sell part of your interest in the Mozambique project? Could you tell us the level of assets that are on the balance sheet currently?*

A We do not intend to sell our interest based short term LNG price movement. We may decide to partly sell or even buy interest in the project if we judge that we can contribute to materializing the project or we can broaden our business base by doing so. At the moment we are not contemplating any divestiture. Assets currently booked on our balance sheet are not substantial.

Q *You plan to invest 250 billion yen this year in total among the Energy Segment, but how do you foresee the level of future cash-out around 2016-2017? Do you mainly plan expansions as new acquisitions are becoming costly? Do you have anything currently under study?*

A We anticipate significant investment into LNG projects including Mozambique, but if there are good opportunities in E&P or coal we would consider them on a case by case basis. Also if we consider that there is a good opportunity to sell an asset at a maximum value, we may do so. At the moment we cannot comment on the level of investments and loans for the future years.

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